

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

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SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /099 W

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R 241215Z AUG 76 MCN CORRECTION

FM AMCONSUL DHAHRAN

TO SECSTATE WASHDC 4948

AMEMBASSY JIDDA

C O N F I D E N T I A L SECTION 1 OF 2 DHAHRAN 1076

E.O. 11652: GDS

TAGS: ENRG, EFIN, SA

SUBJECT: ARAMCO CHANGES ITS EXECUTIVE SUITE, AND IOTHER NOTES
FOR THE RECORD

REF: DHAHRAN 0940

1. SUMMARY: RECENTLY ANNOUNCED CHANGES IN ARAMCO'S SENIOR MANAGEMENT SUGGEST THAT THOSE WORKING ON SAUDI ARABIA'S COSTLY GAS GATHERING PROJECT CAN HAVE THEIR CAREERS SINGED BY SOMETHING OTHER THAN FLARED NATURAL GAS. WE HAVE LEARNED AS WELL THAT THERE IS CONCERN INSIDE THE OIL COMPANY AS TO JUST WHERE THE FUNDS ARE GOING TO COME FROM TO PAY FOR THE PROJECT. ALSO, AS ARAMCO EXPANDS TO EXECUTE LARGE PROJECTS, HOUSING BECOMES SO SHORT THAT OTHER FUNCTIONS MUST BE TRANSFERRED OUTSIDE OF SAUDI ARABIA. AT THE SAME TIME, SAG NEGOTIATIONS WITH ARAMCO AND ITS OWNER COMPANIES OVER OWNERSHIP OF THE OIL COMPANY CONTINUE TO GRIND SLOWLY AHEAD WITH NO INFORMATION SEEPING OUT ON WHERE MATTERS STAND. THE NEXT ROUND OF TALKS IS TO TAKE PLACE IN TAIF FROM SEPTEMBER 3-7 AND THERE IS LITTLE ARAMCO ENTHUSIASM FOR NEGOTIATING WITH YAMANI AFTER SUNSET DURING RAMADAN. FINALLY, AS AN AID TO POST'S PTOROLEUM REPORTING, IT WOULD BE HELPFUL IF DEPARTMENT WOULD ASCERTAIN VIEWS OF OWNER
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COMPANIES ON IMPORTANT ISSUES FACING ARAMCO. UNLIKE IN OTHER

OPEC COUNTRIES, OWNER COMPANIES DO NOT MAINTAIN REPRESENTATIVES IN SAUDI ARABIA AND IT IS IMPOSSIBLE TO GAIN A COMPLETE PICTURE LOCALLY OF ALL THE CROWD CURRENTS INFLUENCING POLICY AND MANAGEMENT DECISIONS OF ARAMCO.

2. CHANGES IN ARA

FO MANAGEMENT: EFFECTIVE AUGUST 1, ARAMCO'S EXECUTIVE SUITE EXPERIENCED ITS FIRST TIRE SHUFFLE IN TWO YEARS. 8, - 5#433-PAGE MEMO CIRCULATED WITHIN THE COMPANY, ARAMCO CHAIRMAN JUNGERS EXPLAINED THAT THE REORGANIZATION IS "TO PROVIDE APPROPRIATE MANAGEMENT CONTROLS, IMPROVE ADMINISTRATIVE REPORTING AND TO SEPARATE PROPONENT FROM ENGINEERING ACTIVITIES." THE PRIMARY EFFECT OF THIS REORGANIZATION IS TO SPLIT THE SERVICES FUNCTION INTO TWO PARTS WITH MOST OF THE HOUSEKEEPING FUNCTIONS RETAINED UNDER CONTROL OF SENIOR VICE PRESIDENT ZINOLA. THE SIGNIFICANT CHANGE IS THAT F.B. FUGATE, VICE PRESIDENT FOR ENGINEERING SERVICES, NO LONGER REPORTS TO ZINOLA. NOW FUGATE REPORTS DIRECTLY TO ARAMCO PRESIDENT POWERS. ENGINEERING SERVICES HAS CONTROL OVER PROJECT PLANNING AND CONSTRUCTION DEPARTMENT; GAS PROJECTS DEPARTMENT; AND YENBO PROJECT DEPARTMENT. IN SHORT THE ENTIRE GAS GATHERING PROGRAM HAS BEEN REMOVED FROM ZINOLA -- AN EXECUTIVE UNLOVED BY MOST AND RENOWNED WITHIN THE COMPANY AND WITHOUT AS A TOUGH, BROOK-NO-OPPOSITION DRIVER. THERE ARE FEW WHO WILL BE SADDENED BY HIS FALL FROM POWER.

3. THE SIGNIFICANCE OF ARAMCO MANAGEMENT CHANGES IS BOTH OBVIOUS AND SUBJECT TO CONJECTURE. 8, -4-:9'S TIGHTLY-KNIT EXECUTIVE COMMUNITY, EVEN THE MOST LOQUACIOUS EXECUTIVE PASSES OFF THE CHANGES TO AN OUTSIDER AS "ROUTINE", "LONG OVERDUE AS THE COMPANY ROUTINELY PROMOTES ITS YOUNGER PEOPLE UPWARDS." NEVERTHELESS, IT IS A FACT THAT ZINOLA, WHO RANKS NUMBER FOUR IN THE ARAMCO HIERARCHY, HAS LOST CONTROL OF HIS MOST IMPORTANT FIEFDOM AND ONE WHICH HAS COME UNDER GROWING CRITICISM. WE POSTULATE FROM THIS EVENT THAT AS MINISTER OF PETROLEUM AND MINERAL RESOURCES (MPMR) YAMANI HAS COME UNDER INCREASING CRITICISM REGARDING THE COST OF THE MULTI-BILLION DOLLAR GAS GATHERING PROJECT, A SCAPE GOAT HAD TO BE FOUND SOMEWHERE. IF BLAME HAD TO BE PLACED ON SOMEONE, ZINOLA WAS AN OBVIOUS CANDIDATE -- HE HAS BEEN IN CHARGE OF THE PROJECT UNTIL NOW, AND FEW WILL BEWAIL HIS REMOVAL FROM CONTROL. PERHAPS THE QUESTION CAN NOW BE POSED: WITH PRESIDENT POWERS DIRECTLY RE-CONFIDENTIAL

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RESPONSIBLE FOR THE GAS GATHERING PROJECT, DOES THIS MEAN THAT CHAIRMAN JUNGERS AND HIS TRUSTED DEPUTY MIGHT BE NEXT TO GO IF SAG BECOMES FURTHER VEXED OVER THE MOUNTING COST OF THE GAS GATHERING PROJECT AND IF YAMANI NEEDS ROOM TO MANEUVER?

4. NERVOUS CONTRACTORS AWAIT CUTBACKS IN ARAMCO CONTRACTS: IN DHAHRAN 0837 WE REPORTED THAT THE GAS GATHERING PROJECT IS UP FOR A CRITICAL REVIEW AND THE PROCESS WOULD BE COMPLETED BY

WUGUST 1. THAT DEADLINE WAS NOT MET AND THE LATEST WORD IS THAT THE REVIEW WILL BE COMPLETED BY THE END OF AUGUST. ARAMCO EXECUTIVES, UP TO THE VICE PRESIDENT LEVEL, WHO HAVE NOT BEEN INVOLVED IN THE GAS GATHERING PROJECT, ARE BEING BROUGHT IN TO PROVIDE INDEPENDENT JUDGMENTS. FOR EXAMPLE, GEORGE LARSON, VP FOR EXPLORATION, WAS IN THE HAGUE RECENTLY PARTICIPATING IN THE REVIEW PROCESS. FUGATE, ARAMCO'S ACTION MAN IN THE GAS GATHERING PROJECT, IS IN HOUSTON AT PRESENT TYING UP THE LOOSE ENDS OF THE REVIEW. MEANWHILE IT IS NOT DIFFICULT TO FIND A NUMBER OF ARAMCO CONTRACTORS WHO ARE FEARING THE WORST AND WHO GO BY ARAMCO'S HEADQUARTERS AS OFTEN AS THEY DARE TO GAIN A PICTURE OF WHAT IS GOING TO HAPPEN. ONE US CONTRACTOR COMMENTED THAT ARAMCO EXECUTIVES "PLAY IT VERY CLOSE" AND GIVE NO HINT CONCERNING THE PROBABLE OUTCOME. NEVERTHELESS, A FEW DAYS AGO THEY WERE INFORMED THAT EARLY NEXT MONTH THEY WOULD RECEIVE DEFINITE WORD AS TO WHICH PARTS OF THE GAS GATHERING PROJECT WOULD BE CANCELLED, WHICH WOULD BE ALTERED, WHICH WOULD BE DESTROYED OUT, ETC.

5. HOW IS THE GAS GATHERING PROJECT TO BE PAID FOR? PARA 2 OF OUR REFTEL NOTED ARAMCO'S CONCERN THAT SAG'S FY 76/77 BUDGET DOES NOT CONTAIN SUFFICIENT FUNDS TO CARRY OUT MPMR'S GAS GATHERING PROJECT. ACCORDING TO PUBLISHED REPORTS, MPMR'S BUDGET CLIMBED ONLY SEVEN PERCENT, AS COMPARED WITH THE PREVIOUS YEAR, TO US \$121.9 MILLION (WHILE PETROMIN'S BUDGET WENT UP FROM US \$13.4 MILLION TO US \$44.4 MILLION). IN PART, MPMR'S MODEST BUDGETARY INCREASE CAN BE EXPLAINED BY TRANSFER OF PART OF MPMR'S PETROCHEMICAL PROJECTS TO THE NEWLY CREATED MINISTRY OF INDUSTRY AND ELECTRICITY (WHICH HAS A BUDGET TWICE THE SIZE OF MPMR), BUT IT DOES NOT APPEAR TO CONTAIN THE FUNDS REQUIRED TO COVER THE CONSTRUCTION COST OF A MULTI-BILLION-DOLLAR GAS GATHERING PROJECT.

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6. ARAMCO'S SPECIFIC CONCERN RELATES TO DIMINISHING FINANCIAL RESOURCES AVAILABLE THROUGH ONE SOURCE OF FUNDS WHICH HAS BEEN USED UNTIL NOW TO FINANCE CONSTRUCTION COST OF GAS-GATHERING PROJECT. ACCORDING TO A KNOWLEDGEABLE ARAMCO SOURCE, MPMR HAS BEEN COLLECTING ITS SHARE OF ARAMCO'S PROFITS AND PUTTING THEM ASIDE IN A SPECIAL ACCOUNT ADMINISTERED BY THE OIL COMPANY. THIS FUND WAS ESTABLISHED IN 1972 WHEN SAG ASSUMED 25 PERCENT PARTICIPATION IN ARAMCO. SIZE OF FUND CLIMBED APPRECIABLY DURING 1974 AND THEREAFTER, FOLLOWING MPMR'S 60 PERCENT PARTICIPATION IN ARAMCO. ARAMCO ECONOMISTS CALCULATE THAT WITH TODAY'S CRUDE PRICES THERE IS ABOUT 25 CENTS US OF PROFIT IN EACH BARREL OF OIL EXPORTED (BUT ARAMCO FINANCIAL EXPERTS CAUTION THAT THEY HAVE NEVER WORKED OUT JUST WHAT MPMR RECEIVES ON A PER BARREL BASIS, SINCE THE DIVIDEND PAYMENTS FORMULA "IS VERY COMPLEX").

WITH PRODUCTION EXPECTED TO AVERAGE 8 1/3 MILLION BARRELS OF CRUDE PER DAY DURING 1976, ARAMCO PROFIT PAYMENTS TO MPMR MAY AMOUNT TO AROUND US \$500 MILLION THIS YEAR. THIS IS A TIDY SUM BUT NOT LARGE ENOUGH TO KEEP PACE WITH THE COST OF PUTTING TOGETHER A MULTI-BILLION DOLLAR GAS GATHERING PROJECT. A STRECHOUT OF THAT PROJECT, ALL BUT ASSURED BY THE PRESENT ARAMCO REVIEWS, WILL PROVIDE SOME RELIEF BUT NO WHERE THE RELIEF REQUIRED.

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CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07

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R 241215Z AUG 76 MCN CORRECTION)

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C O N F I D E N T I A L SECTION 2 OF 2 DHAHRAN 1076

7. AS EXPLAINED TO US BY A KNOWLEDGEABLE ERAMCO SOURCE, THE MPMR SPECIAL ACCOUNT IS ACKNOWLEDGED WITHIN THE SAG BY BOTH THE MINISTRY AND THE OIL COMPANY BUT ITS SIZE HAS NOT BEEN DIVULGED. SAG'S MINISTRY OF FINANCE HAS BEEN KEPT IN THE DARK AS MUCH AS ANY OUT-SIDER. AS SITUATION WAS EXPLAINED TO CONGENOFF RECENTLY, MINISTRY OF FINANCE OFFICIALS HAVE CALLED ON ARAMCO "TO ASK QUESTIONS", BUT ARAMCO, ON INSTRUCTIONS OF MPMR, HAS SUCCESSFULLY FENDED THEM OFF (AS IT HAS OUR QUESTIONS ON THIS MATTER). AS OFTEN IS CASE WITH LARGE INDUSTRIAL OR INFRASTRUCTURE PROJECTS, FRONT-END OR MOBILIZATION COSTS ARE RELATIVELY MODEST. AS A PROJECT IS PUT TOGETHER AND SUPPLIERS MANUFACTURE COMPONENTS WHICH TAKE TIME TO COMPLETE, THE OUTWARD CASHFLOW QUICKENS. WHILE NO ONE IN ARAMCO WILL TELL US WHERE MATTERS STAND, IT IS BECOMING APPARENT THAT THERE ARE NOT ENOUGH FUNDS IN THE SPECIAL ACCOUNT TO COVER ALL THE

COSTS OF THE GAS GATHERING PROJECT DURING ALL OF CURRENT FY.
LITTLE WONDER THAT ARAMCO EXECUTIVES HAVE GIVEN THE SAG BUDGET
FOR FY 76/77 CONSIDERABLY MORE THAN A PASSING GLANCE.

8. ARAMCO TOO FEELS HOUSING SQUEEZE: ARAMCO HAS THREE LARGE
"CAMPS" THAT ASTONISH THE VISITOR BY THEIR SIZE AND SIMILARITY TO
TOWNS IN SOUTHWESTERN UNITED STATES. WITH THE RAPID EXPANSION
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OF ARAMCO'S EMPLOYMENT ROLLS, MOSTLY BECAUSE OF THE MANPOWER RE-
QUIRED TO IMPLEMENT THE GAS GATHERING PROJECT, ARAMCO HAS BEEN
FORCED TO GO ON THE LOCAL HOUSING MARKET TO COVER ITS NEEDS. OIL
COMPANY HAS FOUND THAT IT TOO MUST PAY \$20,000 A YEAR, TWO-THREE
YEARS IN ADVANCE, FOR A SMALL TWO-BEDROOM UNFURNISHED APARTMENT.
THUS IT SEEKS WAY TO CUT BACK ON ITS HOUSING NEEDS. RECENTLY
COMPANY ANNOUNCED THAT ITS RESERVOIR ENGINEERING DEPARTMENT IS
BEING SHIFTED TO HOUSTON. ALSO, MORE PETROLEUM GEOLOGISTS ARE
BEING BASED IN LONDON TO ANALYZE SEISMIC REPORTS. ALL THIS MAKES
MORE HOUSING AVAILABLE TO ARAMCONS WITH "ON-LINE" RESPONSIBILITIES,
BUT IT DOES EXTEND LINES OF COMMUNICATIONS AND REQUIRE MORE EXECUTIVE
TRAVEL.

9. PARTICIPATION NEGOTIATIONS:

OVER A WEEK AGO ARAMCO CHAIRMAN JUNGERS, HIS ADVISORS, AND
SENIOR RESIDENT MEMBERS OF MPMR RETURNED FROM LATEST ROUND OF
PARTICIPATION NEGOTIATIONS IN GENEVA. AS USUAL, NOTHING HAS
BEEN LEAKED AS TO WHAT WAS ACCOMPLISHED. WE UNDERSTAND FROM AN
AIDE TO JUNGERS THAT A RECENT WALL STREET JOURNAL ARTICLE (SUMMARIZED
IN A RIYADH NEWSPAPER), REPORTING THAT NEGOTIATIONS WOULD BE CON-
CLUDED IN LONDON THIS MONTH, IS WITHOUT FOUNDATION. RATHER, THE
NEXT ROUND OF NEGOTIATIONS, INVOLVING MPMR MINISTER YAMANI, JUNGERS,
AND NEGOTIATORS FROM FOUR OWNER COMPANIES, ARE TO BE HELD IN TAIF
SEPTEMBER 3-7. MOBIL'S PRESIDENT (AND CHIEF NEGOTIATOR)
BVOULAREAS,
TO CHAGRIN OF JUNGERS, READILY AGREED TO YAMANI'S PROPOSAL FOR
TAIF MEETINGS AND THE OTHER NEGOTIATORS MEEKLY FOLLOWED SUIT.
JUNGERS AIDE COMMENTED LATER THAT AGREEMENT WAS MADE IN "A FIT OF
LUNACY" SINCE TAIF CANNOT PROVIDE ADEQUATE HOTEL SPACE FOR THE
US CONTINGENT AND, THEREFORE, IT WILL BE REQUIRED TO FLY TO JIDDA
AT END OF EACH NEGOTIATING SESSION TO OVERNIGHT BEFORE RETURNING
TO TAIF. MOREOVER, TIME FRAME FOR NEXT MEETING FALLS DURING
RAMADAN AND, CONSEQUENTLY, NEGOTIATING SESSIONS WILL NEED TO BE
HELD IN EVENINGS -- LEAVING A BLEARY-EYED TEAM OF US
NEGOTIATORS TO RETURN TO JIDDA EACH EVENING. WHEN ASKED IF ALL
DRAWBACKS MIGHT LEAD TO POSTPONEMENT OF MEETING, THE ARAMCON
QUICKLY RESPONDED WITH "YES, AND, OH, DO WE HOPE SO."

10. ACTION REQUESTED: ADDRESSEES SHOULD APPRECIATE THAT CONGEN'S
VIEWS OF MATTERS AFFECTING ARAMCO AND ANCILLARY DEVELOPMENTS IN
SAUDI ARABIA'S PETROLEUM SECTOR, SUCH AS SAG/ARAMCO PARTICIPATION

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TALKS AND MAJOR PROJECTS BEING UNDERTAKEN BY THE OIL COMPANY ARE NEVER COMPLETE. IT IS IMPOSSIBLE TO DEVELOP INFORMATION LOCALLY WHICH PROVIDE US WITH THE VIEWS AND INTENTIONS OF THE FOUR OWNER COMPANIES IN RESPECT TO ARAMCO. UNLIKE IN ALL OTHER OPEC PRODUCTION CENTERS, NONE OF THE OWNER COMPANIES POST EXECUTIVES HERE WHO ACT ON BEHALF OF THE EMPLOYERS OR NEGOTIATE WITH THE HOST GOVERNMENT. IN POINT OF FACT, BECAUSE THE FOUR OWNER COMPANIES ARE SO DISTRUSTFUL OF EACH OTHER, ARAMCO EXECUTIVES ARE EXTREMELY RELUCTANT TO SPEAK OUT ON ANY OR ALL SUBJECTS WHICH MIGHT BE TERMED PRIVILEGED INFORMATION. ARAMCO TYPICALLY POSES AS INNOCENT BYSTANDER ACTING ONLY ON INSTRUCTIONS OF ITS FIVE OWNERS -- MPMR AND THE FOUR US OWNERS. THUS, IT WOULD BE EXTREMELY HELPFUL, AS PUMP PRIMING MATERIAL TO USE WHEN TALKING WITH LOCAL SOURCES OF INFORMATION, IF THE DEPARTMENT COULD ADVISE THE POST ON VIEWS OF THE US OWNER COMPANIES ON MATTERS SUCH AS:

(A) PARTICIPATION TALKS.

(B) ESCALATING COSTS OF GAS GATHERING PROJECT (WE KNOW THAT ONE SESSION OF THE TALKS IN GENEVA WAS DEVOTED EXCLUSIVELY TO THIS SUBJECT).

(C) HOW SECURE ARE ARAMCO'S SENIOR MANAGERS IN THEIR POSITIONS?

(D) DO US OWNERS VIEW JUBAIL FAVORABLY AS POSSIBLE SITE FOR REFINERIES AND PETROCHEMICAL PROJECTS;
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